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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSAL SEVEN)	Docket No. RM2017-11

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-3 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(August 29, 2017)

The United States Postal Service hereby provides its response to Questions 1-3 of Chairman's Information Request No. 1, issued August 22, 2017. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
eric.p.koetting@usps.gov
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RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

1. Please refer to the DSCF Nonprofit Machinable and Irregular Parcels data in Table 1 in Excel file: "Prop.7.Dropship_Passthroughs.xlsx."

a. Please confirm that for Nonprofit Machinable and Irregular Parcels, per piece rated discounts were less than per piece rated avoided costs. If not confirmed, please explain.

b. Please confirm that for Nonprofit Machinable and Irregular Parcels per pound rated discounts were less than per pound rated avoided costs. If not confirmed, please explain.

c. If a. and b. are confirmed, please explain how the new methodology results in a passthrough exceeding 100 percent for this discount.

RESPONSE:

a. Not confirmed. The 25.7 cents in column (f) is the per-piece avoided cost averaged over all parcels, from 0 to 16 ounces, not specifically for piece-rated parcels which are in the range of 0 to 3.3 ounces. The latter avoided cost is not known, and therefore the requested comparison to the per-piece discount for piece-rated parcels cannot be made. The great majority of costs avoided as a result of dropshipping are transportation-related. Such avoided costs are likely to differ significantly for parcels weighing 0 - 3.3 ounces and parcels weighing 0 - 16 ounces, as the two ranges are likely to have significantly different average cubic volumes per parcel, and transportation costs are driven largely by cubic volume and distance traveled.

b. Not confirmed. The 67.1 cents in column (g) is the per-pound avoided cost averaged over all parcels, from 0 to 16 ounces, not specifically for piece/pound-rated parcels which are in the range of 3.3 to 16 ounces. The latter avoided cost is not known, and therefore the requested comparison to the per-pound discount for

piece/pound-rated parcels cannot be made. The great majority of costs avoided as a result of dropshipping are transportation-related. Such avoided costs are likely to differ for parcels weighing 3.3 - 16 ounces and parcels weighing 0 - 16 ounces, as the two ranges are likely to have different average cubic volumes per parcel, and transportation costs are driven largely by cubic volume and distance traveled.

c. Not applicable.

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2. Table 1 in Excel file: "Prop.7.Dropship_Passthroughs.xlsx" calculates passthroughs by expressing the total avoided cost per piece times the total number of pieces as the denominator in the passthrough calculation. Petition at 2. Please update Table 1 to include passthroughs by expressing total avoided cost per pound times the total number of pounds in the denominator. In addition, please explain any differences in passthroughs between the two methods.

RESPONSE:

Attached to this document electronically is an updated Table 1, *Prop.7.Dropship_Pass.ChIR.1.xlxs*. A new column (b) showing piece-rated pounds is added, and all subsequent columns are pushed back one compared to the original Table 1. An alternative passthrough calculation ("Alt. 2") featuring total avoided cost per pound times the total number of pounds in the denominator is offered in a new column (k).

It will immediately be noted that Alt. 2 and the original passthrough calculation (now called "Alt. 1") are not the same. The reason for this is different piece-pound conversion factors (i.e., average weights per piece) in the estimation of unit avoided costs (FY 2016 ACR, USPS-FY16-13, Page 1) and in the billing determinants. The former is done at the shape level (one for letters, one for flats, one for parcels), while the latter is done more granularly at the rate category level. As an example, consider DSCF Commercial and Nonprofit Regular Auto and Nonauto Flats (the second line in the revised Table 1). Two additional decimals are provided in columns (g) and (h) and one additional decimal is provided in column (j) for greater precision.

The piece-ounce conversion factor used at FY 2016 ACR, USPS-FY16-3, Page 1 can be deduced from columns (g) and (h) as (7.255 cents/piece ÷ 34.040 cents/pound)

x 16 ounces/pound = 3.410 ounces per piece. This is the average weight that was applied to all flats in FY 2016 ACR, USPS-FY16-13, Page 1, and the conversion was performed from per-pound (34.040 cents) to per-piece (7.255 cents), not vice-versa.

Meanwhile, actual average weight for DSCF Commercial and Nonprofit Regular Auto and Nonauto Flats, from the billing determinants, can be calculated from columns (a) through (d) as [(191,995.8 + 568,492.6) ÷ (1,430,453.7 + 1,596,994.7)] x 16 ounces/pound = 4.019 ounces per piece. This reflects the granularity of a rate-category application. The 4.019 ounces at the rate category level versus the 3.410 ounces at the shape level fully account for the difference between Alt. 1 and Alt. 2: Alt. 2 = Alt. 1 x (3.410 ÷ 4.019) = 82.10 percent x 0.8485 = 69.7 percent.

Alt. 2's 69.7 percent result can also be obtained from a conversion of the 34.040 cents per pound in column (h) at DSCF Commercial and Nonprofit Regular Auto and Nonauto Flats' actual average weight, 4.019 ounces, rather than the flats-wide 3.410 ounces: 34.040 cents/pound x 4.019 ounces/piece ÷ 16 ounces/pound = 8.550 cents per piece. Plugging this avoided cost into the denominator in column (j) (Alt. 1) instead of the 7.255 cents per piece from column (g) yields 69.7 percent.

Alt. 2 is therefore based on the actual/disaggregated average weight of a DSCF Commercial and Nonprofit Regular Auto and Nonauto Flat, not a generic average weight applying to flats overall, as is Alt 1. With that distinction highlighted by this Information Request, the Postal Service now recognizes that Alt. 2 may be a better option than Alt. 1. Using pounds instead of pieces in the denominator may also be preferable for the following sequential reasons: 1) the great majority of costs avoided as

a result of dropshipping are transportation-related, 2) transportation costs are driven mainly by cubic volume and distance travelled, 3) pounds are positively correlated with cubic volume, and 4) indeed, the avoided cost estimates on Page 1 of FY 2016 ACR, USPS-FY16-13, are derived on a per-pound basis and converted to per-piece, not vice-versa. Consequently, the Postal Service would view adoption of Alt. 2 instead of Alt. 1 as an equally acceptable, if not superior, resolution of Proposal Seven.

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3. Please confirm that the source for the FY 2016 volumes and pounds presented in Table 1 in Excel file: "Prop.7.Dropship_Passthroughs.xlsx" are the FY 2016 Standard Mail Billing Determinant volumes and pounds from the FY 2016 Annual Compliance Report. *See* Docket No. ACR2016, Library Reference USPS-FY16-4 – FY2016 Market Dominant Billing Determinants, December 29, 2016.

a. If confirmed, please update columns (a), (b), and (c) in Table 1 to link to each cell to its corresponding values in the FY 2016 Billing Determinants.

b. If not confirmed, please provide a source for the FY 2016 volumes in Table 1. In addition, provide a narrative that explains why it was not appropriate to use the FY 2016 Standard Mail Billing Determinants for this analysis.

RESPONSE:

Not confirmed. Volume and weight data in the original Table 1 were inadvertently and incorrectly sourced from the hybrid FY 2015 Q4 - FY 2016 Q3 year used in Docket No. R2017-1. For consistency with the FY 2016 ACR, FY 2016 data should have been used. The correct FY 2016 data now appear in the attached updated Table 1. As requested, this file includes links to the FY 2016 billing determinants (the corresponding version of which are also attached electronically to this response). Note that the switch from hybrid year to fiscal year has produced results in column (j) (Alt. 1) slightly different from the column (i) results in the original Table 1. The differences are slight because the hybrid year used in the original Table 1 is displaced from FY 2016 by only one quarter.